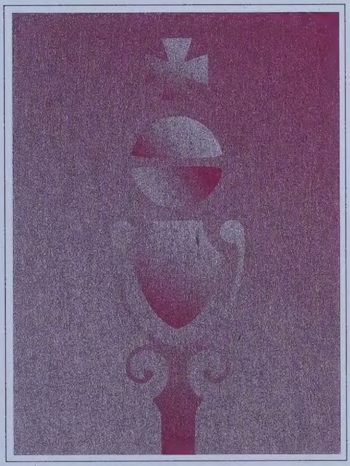
SCEPTRE INVESTMENT COUNSEL LIMITED Annual Report 1999



SCEPTRE
INVESTMENT COUNSEL LIMITED

Incorporated in 1955, Sceptre Investment Counsel Limited became a public company in 1986. Since inception, Sceptre has grown to manage assets totalling more than $18 billion. Sceptre is one of Canada's largest institutional fund managers and one of the few remaining independent large managers. Over the years, Sceptre has consciously monitored the growth process to ensure that the Company continues to provide the highest level of professional investment management and service expected by our clients. Our goal is to produce for our clients the highest possible return over the long term using a conservative portfolio approach, a strategy based on an assessment of global conditions, and a careful analysis of all investments.

Sceptre is in the business of creating and preserving wealth for institutions and individual clients. Sceptre manages funds for segregated and pooled fund clients including corporations, governments, hospitals, charitable foundations, endowments, universities and unions. In addition we offer a family of seven no load mutual funds, and for high net worth individuals a non-prospectus pooled fund and segregated account management. To have greater exposure to the retail market we have formed alliances with several leading Canadian companies.

Sceptre currently employs a team of 100 personnel located in our Toronto and Vancouver offices. This motivated and professional team is one of the most experienced in the business, with a proven track record of performance.

Sceptre Class A Non-Voting shares trade on The Toronto Stock Exchange under the symbol SZ.A. Management Directors of Sceptre hold all of the Company's Common voting shares.

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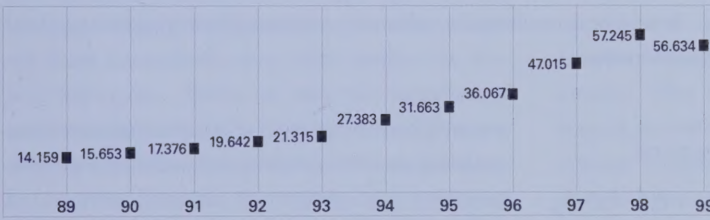
FINANCIAL HIGHLIGHTS

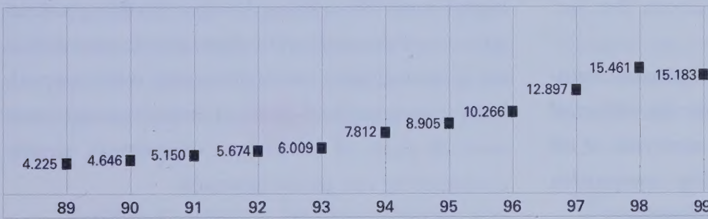
(thousands of dollars except per share items)	**1999**	1998	% change
Revenue	**56,634**	57,245	–1.1
Expenses	**29,227**	29,332	–0.4
Earnings before income taxes	**27,407**	27,913	–1.8
Provision for income taxes	**12,224**	12,452	–1.8
Net earnings	**15,183**	15,461	–1.8
Fully diluted earnings per share	**1.11**	1.13	–1.8
Dividends declared per share	**1.04**	1.01	3.0

ASSETS UNDER MANAGEMENT

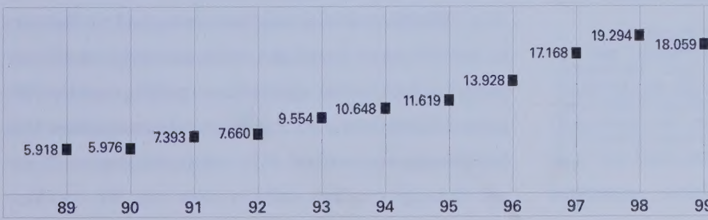
(millions of dollars)	**1999**	1998	%
December 31	**18,059**	19,294	–6.6



Revenue *($ millions)*
Sceptre's objective is to consistently grow revenue at a rate of approximately 15% per year. We have exceeded this objective on average for the last five- and 10-year periods.



Net Earnings *($ millions)*
Sceptre experienced its first decline in earnings, but retains a solid 10-year record for average annual compound growth in fully diluted earnings per share of 12.6%.



Assets Under Management *($ billions)*
Sceptre continued to attract some new business. However significant cash outflows in mutual funds, and client loss in other areas late in the year resulted in a net decrease in assets under management of $1.2 billion.

A **New Era for Investing** The world is involved in a period of intense change characterized by globalization and technology. The increased globalization of economic activity is resulting in the breakdown of historic barriers to trade. The technological revolution is having a major impact on attitudes and approaches to business. Mergers abound as companies form alliances and swallow up other industry players in an attempt to be at the forefront of developments within their respective industries and to establish a major global presence. In a world of instant information, isolationism is no longer a viable economic or political alternative.

This new-world dynamic is also affecting investment markets. These developments have spawned exceptional investor enthusiasm for a narrow group of stocks, almost exclusively confined to the telecommunications and technology sectors. While the TSE 300 ended the year up an impressive 31.7 per cent, over three quarters of this return was contributed by Nortel Networks and BCE Inc. The S&P 500 was similarly dominated by seven stocks responsible for half of the 14.2 per cent return. Approximately 50 per cent of the companies on the TSE 300 and the S&P 500 actually declined in value.

At Sceptre, we have always taken a diversified approach to investing, more akin to the broader market than to the narrow leadership displayed over the past year. While successful in the longer term for Sceptre clients, this style was severely penalized in the last year. As a result, Sceptre's North American equity performance has fallen behind benchmarks over the longer term, dominated by the magnitude of this past year's underperformance.

Encouragingly, we had excellent relative performance in Japan, Europe and the Pacific Rim ex-Japan over the past year. Previous changes in our management approach to this area have resulted in strong recent and 10-year results. Solid bond results were achieved, remaining first quartile over four years. Asset allocation continued to add value.

What we've done at Sceptre

How has Sceptre responded to this shifting investment environment?

We are reorganizing our investment management processes to incorporate the effect of technological changes into our analysis of all companies, and we are comparing companies in similar industries on a global basis.

As a result of this changing dynamic, we are reorganizing our research efforts with the primary focus on global industry rather than our historical geographic approach. We have augmented our staff to accelerate this process. We have separated research from the process of constructing portfolios, assigning specific analysts to key industry segments, beginning with technology, financial services and health care. This change involves building a common set of statistics and valuations. To ensure that the analytical team ties in effectively with our portfolio managers, John Stittle, a senior manager with over 28 years of investment experience, is now coordinating our global research.

We have also closely scrutinized all of the risks in each Sceptre portfolio, with the help of a company in the US that specializes in this process. We have always had a strong asset mix committee that historically has added value to portfolios we manage through prudent shifts in asset mix. We continue

to view this as a major strength of our balanced approach to portfolio management.

At the core of Sceptre's valuation methods and our investment success has been the belief that the value of a security is the future stream of earnings, appropriately discounted for risk. The very high prices commanded by companies at the forefront of technology and globalization significantly challenged this premise. They appear to discount very rapid growth for long periods of time and with little margin for disappointment. We have broadened our investment models to consider the possibility that the stream of earnings from companies leading this revolution is likely to persist longer, and at a higher growth rate, than was previously considered possible.

The new environment has two implications for Sceptre's investment managers. First, the expansion of technology and its application globally will continue to drive more rapid and sustained growth rates for companies able to master these developments. Accordingly, we are looking for opportunities to own securities where we think the outlook more than justifies the current high price. While we view the valuation of many market leaders as being unrealistic, we are able to find investments that make sense in today's environment. Second, the changing ways of doing business will affect all companies. Traditional organizations unable to cope with these changes or that are negatively affected by them, may not be good investments even at historically inexpensive valuations.

In order to augment Sceptre's research and portfolio management efforts, we hired several new investment personnel in the past year. Early in 1999, Mary d'Eon, a specialist in several areas of the world, joined us as portfolio manager focussing on European equities. Glenn Inamoto, portfolio manager with expertise in both the US and Canadian equity markets, will provide focus on Canadian portfolios. Both managers are pivotal to creating globally integrated portfolios. To extend our global industry research we have hired or promoted three analysts in a broad range of specialties.

Employing our modified investment paradigm, we found technology companies at more attractive valuations in EAFE (Europe, Australasia and the Far East) than in North America. 1999 was a year of transition for the global economy because of the recovery in Europe, the bottoming out of Japan's economy and the V-shaped recoveries in Southeast Asia. With revised focus on companies with strong competitive positions in growing markets, Sceptre added several investments in the communications and technology sectors during fourth quarter 1999. We continue to find value in companies undergoing change, including restructuring, improvements to capital management and consolidation.

This has been a very difficult period for Sceptre. We now must endure the lag time between initiating change and improved performance results. The management and staff of Sceptre remain committed to our goal of providing above average long-term performance for our clients and shareholders. As it has for the past 28 years, Sceptre will continue to evolve and make whatever changes are necessary to our business plan and day-to-day operations to ensure that we continue to meet this challenge.

Investment Performance

At Sceptre, we believe that investment performance has to be judged over the long term, generally agreed to be four years. But we do have to look at one-year periods as well. Since the largest

portion of our business is still discretionary balanced pension funds, we concentrate on these results when discussing our performance.

In 1999, our total fund results were below median, and due to the significance of the recent underperformance, the four-year results were also below median. These results can be traced to our Canadian and US equity returns, which have fallen behind their benchmarks over the longer term, dominated by the scope of the more recent decline in performance.

On the positive side, our bond performance was above average over one year and first quartile over four years. Our international equity investments had excellent relative and absolute performance in Japan, Europe and the Pacific Rim ex-Japan in 1999. Our asset mix added value over all periods.

Sceptre's Market Segments

Several years ago we began to shift Sceptre's business from an almost total concentration on pension plans. Today, Pension and other Institutional Funds represent 62 per cent of our revenue.

Revenue for the years ended November 30	**1999**		1998		% Change
(thousands of dollars)	$	%	$	%	
Pension and other Institutional Funds	**34,860**	**61.6**	33,922	59.3	2.8
Mutual Funds	**9,020**	**15.9**	11,694	20.4	–22.9
Personal Asset Management	**7,540**	**13.3**	7,579	13.2	–0.5
Alliances	**5,214**	**9.2**	4,050	7.1	28.7
Total revenue	**56,634**	**100.0**	57,245	100.0	–1.1

Assets Under Management at December 31	**1999**		1998		% Change
(billions of dollars)	$	%	$	%	
Pension and other Institutional Funds	**14,688**	**81.3**	15,225	78.8	–3.5
Mutual Funds	**586**	**3.2**	773	4.0	–24.2
Personal Asset Management	**1,125**	**6.2**	1,194	6.3	–5.8
Alliances	**1,660**	**9.2**	2,102	10.9	–21.0
Total assets	**18,059**	**100.0**	19,294	100.0	–6.4

Pension and other Institutional Funds

Sceptre bills its Pension clients on the market value of their portfolios at four quarter-end dates for the year, ending September 30th. As a result, the increase in revenue attributable to market value changes does not reflect the investment rate of return achieved for the clients during the calendar year. The 2.8 per cent increase in revenue for the fiscal year ended November 30, 1999 was slightly ahead of the change in market value based on the quarterly billing dates.

We placed even greater emphasis on client service in 1999, concentrating on providing more detailed performance attribution and doubling the service team per client. We will be introducing new quarterly service reports in March 2000.

Mutual Funds

At Sceptre, we experienced net redemptions, reflecting our soft performance results. Revenue from Mutual Funds declined 22.9 per cent in 1999.

Reducing volatility in our assets under management is an ongoing process. Within our mandate to offer core investment products, we continue to review our fund offerings to ensure that our unitholders have the option to diversify within our family of funds. We are always looking for new ways to service our customers and to offer flexibility in communication. As investors continue to seek registered investments in foreign equity funds, we look forward to the opportunities presented by the government's easing of foreign investment restrictions.

Sceptre's objective is and always has been to deliver above average performance over the long term with below average fees. We offer investors a "no load" family of funds using a low-key marketing and distribution approach. This strategy focuses on core investment products and enables Sceptre to keep management expense ratios low. Sceptre relies on superior performance and third party recognition to promote our funds. We have always recognized that this strategy, coupled with the ease of liquidity offered by no load funds, means that our results in terms of net sales and assets under management will diverge from industry averages.

From an overall strategic business perspective, we are managing our mutual funds with a clear understanding that they tie in with our Alliances strategy. Given this, we have expanded our Alliances business, which is our response to diversifying distribution and access to the retail market.

Alliances

Since 1992, Sceptre has formed alliances with leading companies in a number of the major areas of retail distribution. These alliances complement our own mutual funds. They position us in distribution channels that we are not aggressively pursuing in a direct fashion. Overall, 1999 was a good year for our Alliances business with revenue rising 28.7 per cent. Our six alliance partners had an excellent year, with assets growing to $1.7 billion from $1.4 billion in 1998. We did experience a setback with the termination of a seventh arrangement in October of 1999.

During the year, our partners launched and began marketing two new initiatives:

- Our agreement with Manufacturers Life Insurance Company was extended in late 1998. In January 1999, two of our mutual funds were included in the new GIF Encore product.

- Four of Sceptre's mutual funds have been included in the new Sun Wise product launched by Sun Life Assurance Company.

Sceptre has built its successful Alliances business focussing on two principles: We have always insisted on a good fit in terms of business philosophy and reputation. In addition, we have always made sure we could support our existing relationships before we started something new. Consequently, we have not expanded aggressively and in fact have turned down more than we have agreed to. We will continue to take this approach in forming further alliances. Partners returning with new arrangements demonstrate that this approach works well for them, too.

We are proud of our ongoing, successful affiliations with The Great-West Life Assurance Company; Investors Group Inc.; London Life Insurance Company; Manufacturers Life Insurance Company; MRS, a subsidiary of Mackenzie Financial Corporation; and Sun Life Assurance Company of Canada.

We are well diversified and positioned for the future.

Personal Asset Management

Sceptre's Personal Asset Management (PAM) service is available to high net worth individuals with portfolios beginning at $250,000. Sceptre is able to offer premium service for lower fees because of the economies gained from working on portfolios of this scale.

We offer two investment formats: a special pooled fund for amounts of $250,000 or more, and segregated accounts beginning at $4 million. Our flagship product is a global balanced fund that now has an 11-year history. This fund outperformed the average of comparable funds in nine of the first 10 years, but was below average in 1999 for all of the reasons already discussed.

However, because of the personal relationships and greater level of service that we are able to provide in this area, clients are more able to understand periods of underperformance. They appreciate the long-term nature of investment results and are generally satisfied with the measures that we are taking to address the future.

We are optimistic about our ability to perform going forward.

Results for Shareholders

Sceptre has provided a five-year average annual earnings rate of 14.6 per cent and a 10-year rate of 14.0 per cent. Revenue has grown to $57 million in 1999, from $14 million in 1989. Through careful management, Sceptre's balance sheet is extremely strong.

1999 was the first year we realized a decline in earnings, albeit a small one. Net earnings and fully diluted earnings per share were each 1.8 per cent lower than in 1998. However, Sceptre's dividend increased to $1.04 for 1999, from $1.01 a year earlier, reflecting our strong cash position. It is also consistent with Sceptre's practice of paying out substantially all after-tax earnings to shareholders.

The charts on page 4 show revenue and assets under management by client group.

Revenue from *Pension and other Institutional Funds* experienced modest growth of 2.8 per cent in 1999. The 2.7 per cent change in market value in the average balanced account (based on four quarterly billing dates ended September 30, 1999) was supplemented by a net increase in funds from new and existing clients. As explained earlier, the change in market value of client portfolios for billing purposes does not equate to the rate of return experienced by clients for the calendar year. During 1999, we continued to attract endowment, foundation and trust funds, particularly in our specialty pooled fund established specifically for this

growing sector in 1993; however, total assets under management declined 3.5 per cent.

Revenue from *Mutual Funds* declined 22.9 per cent in 1999. Over the past five years, this business segment has grown 320 per cent – an average annual rate of 26 per cent – and continues to contribute significantly to overall revenue.

Revenue in the *Personal Asset Management* area was similar year over year. Assets declined 5.8 per cent, primarily in the latter part of the year; however, we also attracted several new clients.

Sceptre's *Alliances* business saw increases in revenue, but at a slower rate than the previous three years of explosive growth. Revenue increased 29 per cent over 1998. Assets declined because of the loss of one client in October 1999.

We expect that the loss of assets under management will continue to affect our revenue in 2000, as there is a time lag between a decrease in assets and its impact on revenue. The majority of our clients are billed quarterly on quarter-end market values. Since fees are charged on market values, the investment returns achieved by continuing clients also have a major impact on our revenues.

The investments Sceptre holds as a company are conservatively invested for protection of capital and for tax efficiency. Investment income represents 2 per cent of revenue. As such, for presentation purposes, this income has been proportionately allocated to revenue from client groups and combined in those categories.

In 1999, our **expense** control was very good. Overall expenses declined by 0.4 per cent.

The skills of our people are Sceptre's most significant asset. As such, remuneration is our most significant expense. While we recognize that compensation is an important aspect of attracting and retaining the best professionals and skilled support staff, our incentive-based compensation programs keep these costs in line with our revenue.

Expectations for 2000

At any time, the major unknown in the investment management business is making estimates on the market return on investments. Sceptre is always conservative in making such predictions and the coming year is no exception. We are also factoring in the effect of the decrease in assets under management.

We expect to restart the systems and technology upgrade and maintenance projects which were put on hold during Y2K, in a controlled manner. The initiatives outlined in this report to improve investment performance will be incorporated into our plan.

We intend to maintain our high level of client service and the investment resources and personnel necessary to achieve superior long-term performance. All these factors may result in a lower earnings ratio for the year. Our quarterly reports to you will track the position and provide you with pertinent information, as it becomes known.

Personnel

In 1999, we added expertise in both portfolio management and research to support global investment management. Regional portfolio managers can now draw on the analytical capabilities of global industry specialists. We also adjusted roles to better capitalize on the particular skills of our staff. More importantly, we continued to provide the support and resources necessary to encourage our professionals to stay disciplined in their approach to investments and client service, regardless of market shifts. During the year, we hired several new people, including:

Glenn Inamoto, MBA, CFA, is a Vice-President and portfolio manager. He brings several years in senior roles in both research and management for US and Canadian portfolios at, among others, the Ontario Municipal Employees Retirement System and O'Donnell Investment Management. Glenn is involved in the design of primarily Canadian portfolios, but with a global perspective.

Dan McClure is an Assistant Vice-President with research responsibilities for technology companies globally. He has an MBA and is a graduate in applied science and electrical engineering. He has practical experience in the technology and telecommunication industries and has worked for both IBM and Hewlett Packard and in the investment banking side of Morgan Stanley Dean Witter.

Edward Reszetnik is an Assistant Vice-President with research responsibilities for small cap equities. He graduated with an MBA and a degree in civil engineering. After four years in the commercial construction industry around the world, he moved into investment analysis with Working Ventures Canadian Fund Inc. focussing on early stage high tech firms.

Two senior people have recently left the Company. **Keith Martin** joined as a client service representative and portfolio manager in our PAM area in 1998. Keith has left to pursue his main interest in US security selection. In August, **Nancy Powis** decided to take a sabbatical for personal lifestyle reasons. She has recently decided to extend that sabbatical to a minimum of a year and we accepted her resignation effective January 31, 2000. We wish them the best for the future.

In December 1999, we promoted several employees in recognition of their contributions to Sceptre. **Helen Kain** was appointed a Management Director. Helen has been with Sceptre since 1994 as a portfolio manager in the PAM department and has played a significant role in the development and administration of that area. **Mary d'Eon**, who joined us early in the year, was promoted to Vice-President and will continue her role on the foreign equity team, specializing in European stocks. **Robert Lorimer** was appointed a Vice-President. Bob joined the Company in 1997 and has responsibilities in the marketing and servicing of our Defined Contribution Pension Plan and Alliances partner clients. **Matthew Baillie** has assumed a research analyst role on the Canadian equity team, with a focus on the financial services sector. Matthew joined Sceptre early in 1998 and has been promoted to Assistant Vice-President.

We are very sad to report that **Ian Lee** died of a heart attack on January 28, 2000 at the age of 52. Ian had an integral role in Sceptre since joining us four years earlier. He was the manager of our fixed income area. In recognition of his contribution to the Company, he had been appointed a management director at our annual meeting in April 1999. Ian swam out of China at the age of 17 to Hong Kong. He was an optimistic and positive presence within the Company, and had a broad international perspective on investment markets in general and fixed income markets in particular. We miss him greatly and extend our deepest sympathy to his family. Sceptre has established a scholarship in his honour at his alma mater, the University of Ottawa.

At Sceptre's annual shareholders' meeting in April 1999, **Michael Wiggan** announced that, at the next annual meeting, he did not intend to stand for re-election as President and Chief Executive Officer. At the same time, it was announced that **William Malouin**, Executive Vice-President and Chief Investment Officer, would be proposed as the new President and CEO. We are pleased that at the Board of

Director's meeting on December 21, 1999 Michael J. Wiggan was appointed Deputy Chairman and William J. Malouin was appointed President and CEO of Sceptre, effective December 31, 1999. **J. Douglas Grant** who has been Chairman of the Board since 1986 continues as Chairman.

We are pleased that **Richard L. Knowles**, CFA, has joined us on March 27, 2000 as Chief Operating Officer and Manager of the Fixed Income department. Since 1996, Rick has been Chairman and Chief Executive Officer of Jones Heward Investment Management. From 1973 to 1996, Rick was with Nesbitt Burns Inc, latterly as Executive Vice-President, Global Fixed Income and Capital Martkets, as well as a member of the Executive Committee

With strong management progression assured, we look forward to the opportunities and challenges of the 21st century.

Risk

In the investment management business, the biggest risk is long-term relative underperformance. We know that investment managers can make intelligent and informed decisions and still be wrong. Every investment management company must expect and plan for periods of relative underperformance. These periods are an opportunity to re-examine operating and investment procedures and refine and improve them. This is especially important in today's environment. Several management responses follow:

- We need to design and structure portfolios for the long term, with a global perspective, and limit the risk exposure to any one particular investment judgment. The cumulative effect of incremental performance in each part of the portfolio should result in overall outperformance over the long term, with less risk.
- We must continue to concentrate our energies on attracting dedicated investment professionals who, on balance, make good investment judgments. We must also maintain a creative environment which is conducive to good investment decision making.
- We must ensure that everything we can control remains of the highest standard, including:
  - continuity and quality of personnel in all areas;
  - careful administration and regulatory compliance;
  - coherent and consistent communication of investment decisions and results to clients.

Sceptre's culture is to clearly and continuously analyze our results. Where we underperform, we act, as we are now doing to position ourselves to outperform in the long term for our clients. We believe that the actions we have taken will put us at the forefront of companies able to design globally integrated portfolios from a Canadian perspective, which we think will become the major thrust of the Canadian investment management industry in the years ahead.

Year 2000

Efforts to assess, adjust for, and monitor the impact of the transition from 1999 to 2000 seem to have been time well spent. Computer operations have been smooth since the turn of the year, not only for Sceptre in microcosm but for the world in general. Further, the potential exodus of investors from world stock markets did not play out. Full compliance and preparedness allayed fears and reason prevailed. For the most part, Y2K is behind us and we can concentrate our resources in more value-added areas.

Outlook

1999 marked an era of change in world stock markets. For portfolio managers like Sceptre who have traditionally avoided richly valued stocks, it is a particularly difficult time. But to thrive and survive for the long term, investment management companies must anticipate periods of under-performance, and use that time to position themselves for the future. Sceptre's response has been both vigorous and forward thinking.

We have modified Sceptre's investment management structure. We have adjusted the way we estimate the future prospects for potential investments, looking positively at the firms able to master this new environment and negatively at organizations that cannot. We are already realizing the potential of our new global integrated approach to investment as we find opportunities to buy leading companies, at prices we think are reasonable given the prospects.

In terms of our performance going ahead, two things give us confidence. As we find sensible opportunities in the global environment, we are no longer as underweighted in the technology and telecommunications area. Secondly, the world is returning to a normal growth period following the Asian meltdown in the late 1990s. More traditional industries – most of the market – should perform better, narrowing the discrepancy between new economy stocks and the rest of the investment universe.

We believe that we have taken the actions necessary to position ourselves once again in the forefront of investment managers. Although there are real elements of speculation in this enduring bull market, we are confident that Sceptre can continue to find sensible investment opportunities and design portfolios that will generate above average results for our clients and our shareholders in the future.

J. Douglas Grant
Chairman

William J. Malouin
President and Chief Executive Officer

March 30, 2000

Sceptre's Corporate Philosophy

The objective of good corporate governance is to enhance value for all stakeholders including shareholders over the long term.

At Sceptre, in order to achieve this goal, clients must come first and employees second. We are in business to get results for our clients - without them, we have no business. We depend on our employees to deliver the results. And if we get these two priorities right, then the shareholders benefit in the long run.

Our approach to the issues of governance flow out of the characteristics of our business and our Company.

Sceptre's business is very focused: we manage money for clients.

The success of our Company depends on the judgment of our investment professionals. We believe that the atmosphere within which they work directly affects their judgment. To attract and retain exceptional talent, we must provide a professional environment - one that is creative, supportive and fair, and recognizes achievement. We believe that our investment professionals need to be very much a part of the governance of the Company… they have to feel ownership and take responsibility for corporate direction and ultimately success. That is how we ensure continuity - of our people and our Company - as evidenced on the inside back cover of this report.

Share Ownership at Sceptre

In our opinion, the best guarantee of good corporate governance in the interest of all stakeholders is that the people driving the Company - the management - should have what is to them a substantial and meaningful stake in the same shares as the public shareholders. Sceptre has developed a remuneration package towards this end. There are two key elements of this package:

- Share Purchase Incentive Plan, under which a substantial proportion of senior officers' total compensation is set aside and, after tax, is used to buy Class A Non-Voting shares. All payments received, including dividends, must be used to buy shares. None of these shares may be sold by employees while they are receiving benefits under this plan.
- Stock Option Plan, under which the employee must retain all shares which can be held free after payment of the exercise price and any taxes payable on the benefit. The "cost" of the option plan is a reduction in the growth rate in fully diluted earnings per share compared to the growth rate in net earnings. Historically, this has been about 2 per cent which we think is a reasonable cost to the shareholders.

We are committed to the principle of management investment in our Company. We also make a point of looking at the extent of share ownership of the people driving the companies in which we invest. We feel that it provides tangible evidence of a company that is managed in the long-term interests of shareholders.

Board Composition

As a consequence of our history and our approach to governance, and the law as it currently applies, we do not have a majority of independent outside directors. We have four independent directors, all of whom are unrelated, and eight management directors on the official Board of Sceptre. We will have more than eight individuals who are employees of Sceptre designated as management directors, but a maximum of eight of them will be on the official Board on a rotating basis.

Sceptre's Objectives

Some of Sceptre's objectives and policies that may be of interest to shareholders are:

- Long-term growth in revenue that is sustainable and orderly and consistent with the characteristics

of our industry. We target this growth in revenue to be about 15 per cent per year.

- A bonus pool of 20 per cent of profits before tax is paid to employees, which is an important part of their total compensation.
- Substantially all of the Company's earnings are paid in dividends, subject to the Company's financial requirements. In the last few years, dividends have been about 90 per cent of earnings.

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The Board of Directors has responsibility for the stewardship of the Company, including the following matters: adoption of a strategic planning process; identification of principal risks, and implementing risk management systems; succession planning and monitoring senior management; communications policy; and integrity of internal control and management information systems.

The nominating process is an informal procedure coordinated by the Chairman. The Nominating Committee consists of all members of the Board. Given the composition of the Board, it is not practical to have a Nominating Committee composed entirely of independent directors. In the case of management directors, management personnel become eligible through demonstrated business performance. The Chairman facilitates the process of identifying independent director nominees. Independent directors participate fully in all discussions in the nomination of all directors. Board effectiveness is the responsibility of the Chairman and the Nominating Committee.

Sceptre conducts an informal orientation/education program for new independent directors. The Company is fortunate to have only experienced, hands-on individuals as Board members. All independent Board members have full and ready access to the management directors at all times and may engage an outside advisor at the expense of the Company in appropriate circumstances. It is Sceptre's policy to tell our independent directors exactly what is going on in the Company, in a very straightforward manner, and to treat our public shareholders in the same way.

The Corporate Governance Committee consists exclusively of independent directors. No employee of Sceptre attends meetings of this committee. The Governance Committee has concluded that the size and composition of the Board and the complement of independent directors is adequate and meets the interests of the public shareholders. This committee has also determined that the compensation of the independent directors is fair. Only independent directors receive Board Fees.

The Chairman of the Board, Douglas Grant, has been an employee of Sceptre for 35 years and has chaired the Company since it became public in 1986.

Board Committees

Governance	Chaired by Arthur Scace Composition: four independent directors, William Blundell, Anne Golden, Arthur Scace and Ross Walker
Audit	Chaired by Ross Walker Composition: three independent directors, William Blundell, Arthur Scace and Ross Walker
Compensation	Chaired by William Blundell Composition: three independent directors, William Blundell, Arthur Scace and Ross Walker, and three management directors, Douglas Grant, William Malouin and Michael Wiggan
Nominating	Chaired by Douglas Grant Composition: full Board of Directors

Sceptre Investment Counsel Limited, incorporated in 1955, is a leading Canadian independent money management company. The Company is one of Canada's largest institutional money managers with assets of $18.1 billion under management at the end of 1999.

Institutional Investment Management

Sceptre manages on a fully discretionary basis, segregated portfolios for pension and other savings plans of corporations, municipalities, universities, labour unions, charitable foundations and organizations, and reserve funds of insurance companies.

In 1983, Sceptre established Pooled Investment Funds. The Balanced Fund efficiently and economically provides smaller pension funds with the same management that Sceptre applies to segregated funds. The Foreign Equity Section simplifies the management of the foreign content of both segregated and pooled clients' portfolios. The Endowment, Foundation and Trusts (EFT) Section is a balanced fund whose primary objective is to provide capital preservation with a secondary goal of income and appreciation.

The following specialty funds are also available to pension and non-taxable accounts: Equity, Canadian Equity, Bond, U.S. Equity, International Equity, EAFE, Small Capitalization, Global Bond, and Money Market.

Personal Asset Management

In 1987, Sceptre formed a Personal Asset Management Department to bring its experience and investment expertise to individual investors. Today this department manages about $1.1 billion for private clients.

Sceptre offers its services to individual investors through segregated account management and the Sceptre Personal Investment Fund (SPIF).

Segregated account management is available to individuals with amounts of $4 million or more to invest.

The Sceptre Personal Investment Fund has seven sections: Global Balanced, Registered Balanced, International, U.S. Equity, Canadian Equity, Fixed Income and Money Market. These funds are available to individuals with a minimum of $250,000 to invest. SPIF Registered Balanced, Fixed Income, Canadian Equity and Money Market Sections are RRSP/RIF eligible while the SPIF Global Balanced, International and U.S. Equity sections are eligible investments for registered plans, as foreign content.

Sceptre Mutual Funds

Individuals may also choose to invest in one or more of the seven Sceptre Mutual Funds where a minimum investment of $5,000 is required. The funds, Sceptre Balanced Growth Fund, Sceptre Bond Fund, Sceptre Equity Growth Fund, Sceptre Canadian Equity Fund, Sceptre International Fund, Sceptre U.S. Equity Fund and Sceptre Money Market Fund are all eligible for RRSP, RIF and DPSP investment. At the end of 1999 there were approximately 30,000 unitholders whose assets totalled $586 million.

Alliances

Sceptre has formed strategic partnerships or alliances with a number of organizations over the past seven years. Our alliance partners vary from servicing the defined contribution pension business, being mutual fund sponsors, to providing segregated insurance funds. This area of Sceptre's business complements and supports our strategy with regards to servicing the individual investor markets.

Each alliance brings diversification of distribution and therefore provides Sceptre exposure to a much wider audience of potential clients. In addition to distribution, our alliance partners provide a range of investor advisory services and administration, while we provide our core expertise in investment management. Fund mandates encompass equity, fixed income and balanced funds.

At the end of 1999, we had six alliances, with 14 funds being managed by Sceptre and assets of $1.7 billion.

To the Shareholders of Sceptre Investment Counsel Limited

We have audited the balance sheets of Sceptre Investment Counsel Limited as at November 30, 1999 and 1998 and the statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, Ontario
December 21, 1999

As at November 30, 1999 and 1998	**1999**	1998
Assets		
Current assets		
Cash and cash equivalents	**$ 6,492,000**	$ 3,954,000
Accounts receivable	**1,757,000**	4,856,000
Income taxes recoverable	**2,815,000**	1,334,000
	11,064,000	10,144,000
Long-term investments (note 2)	**22,384,000**	19,719,000
Due from related party (note 4)	**120,000**	290,000
Capital assets (note 3)	**1,278,000**	1,404,000
Goodwill	**63,000**	63,000
	$ 34,909,000	$ 31,620,000
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 3,353,000**	$ 3,092,000
Bonuses due to employees	**3,443,000**	3,661,000
	6,796,000	6,753,000
Shareholders' Equity		
Capital stock (note 5)	**13,296,000**	11,229,000
Contributed surplus (note 5)	**49,000**	50,000
Retained earnings	**14,768,000**	13,588,000
	28,113,000	24,867,000
	$ 34,909,000	$ 31,620,000

Approved by the Board of Directors

J. Douglas Grant
Director

Michael J. Wiggan
Director

STATEMENTS OF EARNINGS

For the years ended November 30, 1999 and 1998	**1999**	1998	% change
Revenue	**$ 56,634,000**	$ 57,245,000	–1.1
Expenses	**29,227,000**	29,332,000	–0.4
Earnings before income taxes	**27,407,000**	27,913,000	–1.8
Provision for income taxes			
Current	**12,224,000**	9,484,000	
Deferred	**–**	2,968,000	
	12,224,000	12,452,000	–1.8
Net earnings	**$ 15,183,000**	$ 15,461,000	–1.8
Earnings per share (note 6)			
Basic	**$ 1.13**	$ 1.16	–2.6
Fully diluted	**$ 1.11**	$ 1.13	–1.8

STATEMENTS OF RETAINED EARNINGS

For the years ended November 30, 1999 and 1998	**1999**	1998
Balance – Beginning of year	**$ 13,588,000**	$ 11,323,000
Net earnings for the year	**15,183,000**	15,461,000
	28,771,000	26,784,000
Dividends paid		
Common shares	**12,000**	11,000
Class A Non-Voting shares	**13,991,000**	13,185,000
	14,003,000	13,196,000
Balance – End of year	**$ 14,768,000**	$ 13,588,000

For the years ended November 30, 1999 and 1998	**1999**	1998
Cash flows from operating activities		
Net earnings for the year	**$ 15,183,000**	$ 15,461,000
Items not affecting cash resources		
Loss (gain) on disposal of investments	**78,000**	(4,000)
Depreciation and amortization	**315,000**	305,000
Deferred income taxes	**–**	2,968,000
Net increase (decrease) in non-cash operating working capital items	**1,661,000**	(2,645,000)
	17,237,000	16,085,000
Cash flows from financing activities		
Net proceeds on issue of capital stock	**2,066,000**	2,271,000
Payment of dividends	**(14,003,000)**	(13,196,000)
	(11,937,000)	(10,925,000)
Cash flows from investing activities		
Purchase of long-term investments	**(2,743,000)**	(8,430,000)
Repayment from related party	**170,000**	460,000
Purchase of capital assets	**(189,000)**	(221,000)
	(2,762,000)	(8,191,000)
Cash and cash equivalents provided (used) in the year	**2,538,000**	(3,031,000)
Cash and cash equivalents – Beginning of year	**3,954,000**	6,985,000
Cash and cash equivalents – End of year	**$ 6,492,000**	$ 3,954,000

Taxes paid during the year	**$ 13,750,000**	$ 11,388,000

For the years ended November 30, 1999 and 1998

Note 1. Summary of significant accounting policies

Revenue recognition

The financial statements reflect 12 months of revenue determined as follows: The majority of management fees are accounted for on the basis of quarterly billings with the final quarterly billing for the fiscal year being recorded for the quarter ended September 30. The management fees for mutual funds and pooled personal investment funds managed by the Company are billed and accounted for monthly with the final monthly revenue recorded for the month ended October 31.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances and treasury bills designated for operating purposes

Investments

Investments in treasury bills and debt securities are carried at amortized cost providing for the amortization of the discount or premium on a straight-line basis to maturity. Investments in equities, which comprise preferred shares and mutual fund units, are carried at cost.

Depreciation and amortization

Depreciation of furniture, fixtures and equipment is calculated using the declining balance method at an annual rate of 20%. In the year of acquisition, one-half year's depreciation is taken.

Leasehold improvements are amortized on a straight-line basis over the term of the related lease.

Goodwill

Goodwill, recorded at cost, represents the excess cost over net book value of assets acquired prior to April 1, 1974. Amortization of goodwill to income is not made and will not occur unless the value of goodwill becomes impaired.

Income taxes

The tax allocation method is used in accounting for income taxes whereby timing differences between income and expenses reported in the financial statements and income and expenses reported for income tax purposes result in deferred income taxes.

Note 2. Long-term investments

	1999		1998	
	Book value	**Estimated fair value**	Book value	Estimated fair value
Treasury bills	**$ 5,904,000**	**$ 5,904,000**	$ 1,663,000	$ 1,663,000
Debt securities	**10,101,000**	**10,012,000**	13,090,000	13,227,000
Equities	**6,379,000**	**6,143,000**	4,966,000	4,838,000
	$ 22,384,000	**$ 22,059,000**	$ 19,719,000	$ 19,728,000

Estimated fair value is based on quoted market values.

Liquidity and interest rate risk

Equities, which comprise preferred shares and mutual fund units, have no specific maturities. All debt securities mature within five years.

Investment income for 1999 is $1,153,000 (1998 - $1,086,000) and is included in revenue in the statements of earnings.

There were no write-downs or provisions recorded in respect of investments in 1999 or 1998.

Note 3. Capital assets

Capital assets are recorded at cost with any expenditure for repairs and maintenance charged to expenses as incurred. Capital assets are classified as follows:

	1999			1998		
	Cost	**Accumulated amortization**	**Net**	Cost	Accumulated amortization	Net
Furniture, fixtures and equipment	**$2,809,0000**	**$ 1,686,000**	**$ 1,123,000**	$ 2,657,000	$1,425,000	$ 1,232,000
Leasehold improvements	**270,000**	**115,000**	**155,000**	233,000	61,000	172,000
	$ 3,079,000	**$ 1,801,000**	**$ 1,278,000**	$ 2,890,000	$1,486,000	$ 1,404,000

Note 4. Due from related party

In June 1997, the Company made a $750,000 loan in connection with the relocation of a management director. The loan bears interest at 3% p.a., payable semi-annually. During the year the management director repaid $170,000 of principal of the loan. The remaining principal is to be repaid in full by June 1, 2002.

Marketable securities have been pledged as collateral for the loan.

Note 5. Capital stock

Authorized and issued share capital

Authorized –

22,770 Common shares (1998 – 22,770)

Unlimited Class A Non-Voting shares

	1999	1998
Issued and outstanding –		
12,270 Common shares (1998 – 12,270)	**$ 9,000**	$ 7,000
13,538,930 Class A Non-Voting shares (1998 – 13,390,530)	**13,287,000**	11,222,000
	$ 13,296,000	$ 11,229,000

During the year, the Company redeemed 1,500 (1998 – nil) of its Common Shares at a total cost of $2,310. The excess cost of purchase over the assigned value, being $1,415, was alllocated to contributed surplus. The Company subsequently re-issued 1,500 Common shares (1998 – 1,860) for total cash consideration of $2,400 (1998 – $2,418).

During the year, options were exercised on 148,400 Class A Non-Voting shares (1998 - 157,825) at prices between $10.00 and $24.04 per share (1998 - between $6.60 and $25.00 per share) for a total cash consideration of $2,065,105 (1998 - $2,268,693).

During the year, pursuant to a stock option plan dated March 22, 1994, as amended, authorizing the granting of an aggregate of 1,956,102 options to purchase Class A Non-Voting shares, the Company issued 85,000 options at exercise prices ranging between $20.25 and $31.05 per share.

Commitments to issue shares

Certain employees have been granted options to purchase an aggregate of 567,300 Class A Non-Voting shares at exercise prices ranging between $10.00 and $43.00 per share. The options are exercisable over a five year period at the rate of 20% per year and have expiry dates between June 19, 2000 and September 22, 2005.

Rights of classes of issued shares

The Class A Non-Voting shares and the Common shares have equal dividend rights. Both classes of shares rank equally in the event of liquidation, dissolution or winding-up of the Company.

If the beneficial ownership, control or direction of more than 20% of the outstanding Common shares is exercised by any person or persons who have not been full-time employees of the Company for at least one year, the Class A Non-Voting shares will become entitled to one vote per share at all meetings of shareholders of the Company unless the prior approval of the holders of the Class A Non-Voting shares has been obtained for the change in the beneficial ownership, control or direction.

Note 6. Earnings per share

This calculation is based on the weighted average number of shares outstanding during the year.

Fully diluted earnings per share are calculated on the assumption that all stock options outstanding during the year had been exercised when granted. The rate of return used for imputing earnings on the funds derived from the exercise of stock options was 4.7% (1998 - 4.6%), before applicable income taxes. The amount of income imputed, after income taxes, was $417,000 (1998 - $402,000).

Note 7. Lease commitment

The Company is committed under two operating leases for premises as follows:

	$
2000	562,000
2001	578,000
2002	490,000
	$ 1,630,000

Note 8. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or third parties, will be fully resolved.

Eleven-year financial review (in thousands of dollars except per share items)

Summary Statements of Earnings *for years ended November 30*	**1999**	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Revenue	**56,634**	57,245	47,015	36,067	31,663	27,383	21,315	19,642	17,376	15,653	14,159
Expenses	**29,227**	29,332	23,765	17,584	15,519	13,219	10,357	9,408	8,101	7,312	6,574
Earnings before income taxes	**27,407**	27,913	23,250	18,483	16,144	14,164	10,958	10,234	9,275	8,341	7,585
Provision for income taxes	**12,224**	12,452	10,353	8,217	7,239	6,352	4,949	4,560	4,125	3,695	3,3604
Net earnings for the year	**15,183**	15,461	12,897	10,266	8,905	7,812	6,009	5,674	5,150	4,646	4,225
Fully diluted earnings per share	**1.11**	1.13	0.95	0.77	0.68	0.61	0.47	0.46	0.42	0.38	0.35
Dividends declared	**1.04**	1.01	0.85	0.69	0.61	0.55	0.43	0.41	0.39	0.38	0.33

Assets under management *(in millions of dollars)*
as at December 31

December 31	**18,059**	19,294	17,168	13,928	11,619	10,648	9,554	7,660	7,393	5,976	5,918

Percentage changes

	Average												
	5 yrs.	10 yrs.	**1999**	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Revenue	16.1	15.2	**–1.1**	21.8	30.3	13.9	15.6	28.5	8.5	13.0	11.0	10.6	28.5
Net earnings for the year	14.6	14.0	**–1.8**	19.9	25.6	15.3	14.0	30.0	5.9	10.2	10.8	10.0	47.4
Fully diluted earnings per share	13.0	12.6	**–1.8**	18.9	23.4	13.2	11.5	29.8	2.2	9.5	10.5	8.6	45.8

Earnings as a percentage of revenue

	Average												
	5 yrs.	10 yrs.	**1999**	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Earnings ratio	27.6	28.3	**26.8**	27.0	27.4	28.5	28.1	28.5	28.2	28.9	29.6	29.7	29.8

Quarterly results

	Fully Diluted Earnings Per Share		Dividends Declared	
	1999	1998	**1999**	1998
First	**$ 0.29**	$ 0.26	**$ 0.26**	$ 0.24
Second	**0.27**	$ 0.29	**0.26**	0.25
Third	**0.27**	$ 0.30	**0.26**	0.26
Fourth	**0.28**	$ 0.28	**0.26**	0.26
Annual	**$ 1.11**	$ 1.13	**$ 1.04**	$ 1.01

Board of Directors

Independent Directors

William R.C. Blundell, BASC*
former Chairman and Chief Executive Officer of General Electric Canada Inc. Corporate Director

Anne Golden, PHD*
President, United Way of Greater Toronto

Arthur R.A. Scace, QC*
Partner, McCarthy Tetrault Corporate Director

W. Ross Walker, BCOMM, FCA*
former Chairman and CEO, KPMG Canada, and former International Executive Partner, KPMG Corporate Director

Management Directors

Stephen H. Douglas*
J. Douglas Grant*
Betty B. Horton*
Helen M. Kain
Allan Jacobs
Richard L. Knowles*
William J. Malouin*
Lennox J.D. McNeely
John Moore
Michael R. Murphy
David B. Pennycook*
Lyle A. Stein
F. John Stittle
Rocco Taglioni*
Michael J. Wiggan*

** nominated for corporate board of directors*

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Legal Counsel

Cassels Brock & Blackwell

Transfer Agent & Registrar

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Stock Exchange Listing

Class A Non-Voting Shares
(SZ.A)
The Toronto Stock Exchange

Annual Meeting

Upper Canada Room
18th Floor
Royal York Hotel
100 Front Street West
Toronto, Ontario
M5J 1E3
Wednesday, May 24, 2000
4:30 p.m.

	Years in Investments	Years at Sceptre	Age	Position
John J. Brophy, BSC, FCIA, CFA	14	1	50	Vice-President
Patricia A. Croft, BA	19	3	41	Vice-President
Mary I. d'Eon, BCOMM, CFA	18	1	40	Vice-President
Stephen H. Douglas, BCOMM, CFA	13	5	37	Vice-President
J. Douglas Grant, BA, FCA, CFA	35	35	62	Chairman
Betty B. Horton, BED, MBA, CA	12	11	49	Vice-President Finance & Secretary Treasurer
Glenn R. Inamoto, MBA, CFA	14	1	41	Vice-President
Allan Jacobs, BCOMM, CA (South Africa)	16	7	40	Vice-President
Helen M. Kain, CFA	19	6	38	Vice-President
Richard L. Knowles, HBA, CFA	26	1	49	Chief Operating Officer
Robert R. Lorimer, BSC	12	3	46	Vice-President
Andrew B. MacDonald, AB	16	9	40	Vice-President
William J. Malouin, BA, CFA	30	9	54	President & Chief Executive Officer
Lennox J.D. McNeely, MBA, CFA	31	21	54	Executive Vice-President
John Moore, BCOMM	41	13	62	Vice-President
Michael R. Murphy, MSC, MPHIL, CFA	27	16	50	Vice-President
David B. Pennycook, BCOMM	20	8	45	Vice-President
Mario D. Richard, BMATHS, CFA	18	2	44	Vice-President
Douglas R. Simmons, MBA	31	13	54	Vice-President
Lyle A. Stein, MA, CFA	18	8	42	Vice-President
F. John Stittle, BA, CFA	29	11	54	Vice-President
James A. Sutherland	15	1	43	Vice-President
Rocco Taglioni, BA	12	4	42	Vice-President
Michael J. Wiggan, MBA, CFA	32	17	59	Deputy Chairman
Average of 24 people	22	9	47	

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SCEPTRE
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